July 1991 Monthly Survey

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Surveys of Consumers

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INFLATION EXPECTATIONS TUMBLE: DISINFLATIONARY PSYCHOLOGY DOMINATES BUYING DECISIONS

Confidence Unchanged

The Index of Consumer Sentiment was 82.9 in the July 1991 survey, only slightly above the 82.1 recorded in June. Overall, sentiment has remained in a holding pattern at much improved levels since April.

The pause reflects a period of consolidation following the record surge in optimism in March, with heightened expectations outdistancing actual economic performance. The same type of pause has been recorded in the early stages of prior recoveries. A slower than usual rate of recovery may prolong this pause, without reversing the underlying upward trend. Overall, the data continue to indicate a slowly improving rate of growth in consumer spending during the year ahead.

The small July improvement was due to more favorable buying attitudes, based on the expectation of greater price discounting. Although most other series showed little change from June, two significant shifts did emerge in July: consumers are less worried about inflation, and are more concerned about rising interest rates.

Leading Indicator Stalled at Improved Level

The Index of Consumer Expectations, the component of the Leading Indicator Index, stood at 74.4 in the July 1991 survey, down slightly from the 75.9 recorded one month earlier, and nearly equal the 74.7 recorded three months earlier. Overall, the Expectations Index has remained flat since April. Until improved economic conditions reenforce the already heightened expectations, little further gains can be expected

The small decline in the expectations component was offset by an increase in favorable evaluations of current economic conditions. The Current Conditions Index rose to 96.1 in July from 91.9 in June, posting its highest level since last August. The improvement was due to more favorable evaluations of current buying conditions for large household durables.

Regional Differences Narrow In July

Regional differences in sentiment narrowed in the July 1991 survey. Residents of the Northeast posted the largest gains (to 79.6 in July, up from 69.9 in June), although they still remained the lowest of any region. Sentiment among residents of the Western region, the highest in June, declined in July (to 82.8, from 86.6 in June). Insignificant changes were recorded in the other two regions, with sentiment among residents of the Midwest slightly higher (83.7, up from 82.5 in June), while among residents of the South it was slightly lower (84.8, down from 85.9).

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Inflation Expectations Fall to Four Year Low

Consumers expected an inflation rate of just 3.8% in the July survey, down from 4.8% in June, and the recent peak of 6.1% in October 1990. Overall, the July reading was the lowest expected inflation rate to be recorded in more than four years. The July reading was only about one-half a percentage point above the lowest rate recorded during the past decade--3.2% in March of 1986.

Concerns Over Rising Interest Rates Grows

In contrast to the anticipated declines in inflation, interest rates were expected to increase during the year ahead by 43 percent of all families in July, up from 34 percent in June, and the highest level since year-end 1990. Half as many families expected interest rates to decline in July as in January (21 percent versus 42 percent).

While these heightened concerns have reversed much of the recent improvement, interest rate expectations were still much more favorable in July than last September when 63 percent expected increases, compared with just 14 percent that expected declines. Moreover, the recent reduction in interest rates may well help to reduce these concerns in the coming months.

Personal Finances Remain Weak

Consumers assessments of their financial situation have not changed significantly during the past few months, remaining well below the year earlier readings. Currently, about as many families reported an improved as a worsened financial situation. Among all families in the July 1991 survey, 36 percent reported that their financial situation had improved during the past year, only a slightly larger proportion than the 33 percent that reported that their financial situation had worsened.

Declines in incomes remained prevalent in July, reported by one-in-five households. Income declines have been reported more frequently since the start of 1991 than at other any time since the last recession. The continued weakness in incomes has been partially offset by lower prices, with the proportion of families that complained about prices falling to 13 percent in July from 19 percent one month earlier.

A falling inflation rate has also helped to improve prospects for the year ahead, despite the expectation that nominal income increase will remain small. Among all families in the July 1991 survey, 33 percent expected their financial situation to improve during the year ahead, compared with just 14 percent that expected worsening financial situation. Nearly half of all households (48 percent), however, continue to expect their financial situation to remain largely unchanged during the year ahead, considering both expected income and price increases.

Unemployment Outlook: Little Improvement Expected

Unemployment expectations have undergone a substantial shift during the first half of 1991. Many fewer consumers expected further increases in the national unemployment rate in the July 1991 survey (39 percent) than at the start of the year (62 percent), falling to the level recorded one year earlier.

The shift in opinions, however, was not toward the expectation that the national unemployment rate would now decline, as the July survey recorded just 13 percent expected the unemployment rate to decline during the year ahead. Rather, the shift was toward the expectation that the national unemployment rate would remain largely unchanged at its current level, reported by 48 percent of all families in July, up from 29 percent in January.

Overall, these results indicate that consumers now think that the unemployment rate has now reached its cyclical peak, but rather than improve, they anticipate it to remain stubbornly high at current levels during the year ahead.

Slowly Recovery Expected In National Economy

Consumers assessments of the domestic economy remained largely unchanged in the July survey from one month earlier, following repeated small gains since the start of the year. In the July 1991 survey, 24 percent of all families thought that the economy had already shown some signs of improvement, unchanged from June, but three times the 8 percent recorded in January. To be sure, this still left the majority of households with the view that current economic conditions were still worse than a year earlier.

For the year ahead, the economy was expected to improve by 35 percent of all families, twice the 17 percent that expected the economy to further worsen. This outlook is nearly identical with the readings in each of the prior three months. The two-to-one margin that expected improvement represents a complete reversal in opinion from last Fall, when worsening conditions were expected by more than a three-to-one margin (13 versus 43 percent).

Although renewed economic growth was expected during the year ahead, the rate of improvement was expected to be meager. Nearly as many consumers thought that the expected gains would reestablish good times financially in the economy during the year ahead as thought that bad times would persist (41 versus 42 percent).

Improved Buying Attitudes: Discount Psychology Dominates Views

Consumers' views of buying conditions in July were at their most favorable levels since the recession began. The improvement has been due to very favorable perceptions of prices. Near record numbers of consumers mentioned the availability of discounted prices when asked to explain their views about each of the markets studied. Moreover, few consumers registered complains about high prices, and few consumers expressed concerns that prices would rise during the year ahead. Never before in the history of these surveys have such favorable perceptions of prices been as dominant.

Although this has certainly improved consumers' buying attitudes, it now provides consumers little incentive to speed up their purchases to take advantage of current discounts. Indeed, just as the available of discounts has become the expected norm, the ability of these discounts to elevate overall sales rates has diminished. To be sure, the presence or absence of discounts will remain a key factor for market share considerations. While the presence of discounts provides little advantage, their absence remains a distinct disadvantage.

Importantly, consumer's reactions to changes in market prices now act to dampen inflationary trends, rather than validate and further accelerate inflationary trends as they did in the late 1970's.

Household Durables

Favorable attitudes toward buying conditions for furniture, appliances, home electronics, and other large household durables were held by 68 percent of all families in the July 1991 survey. This was the most favorable reading since the January 1991 low, although it still remained below the year earlier reading. These improved buying attitudes were based on very favorable perceptions of current and expected trends in market prices for these goods.

The availability of discounted prices was mentioned by 42 percent of all families in the July survey, up from 34 percent in June, and only marginally below the all-time record high of 45 percent (see the table below).

References to Prices In Assessments Of Buying Conditions For Durables

	Low Prices	Buy-in-Advance Rising Prices	High Prices
July 1991	42%	12%	6%
Record Low (Year)	2% (1952)	3% (1952)	5% (1986, 1988)
Record High (Year)	45% (1984, 1985, 1990)	53% (1979)	48% (1951)

Moreover, few consumers thought that current prices were to high and thus cause for postponement of purchases (just 6 percent in July), and few consumers favored speeding up purchases in anticipation of rising prices (12 percent in July). In both cases, these figures are within a few percentage points of the lowest levels recorded during the past decade.

Vehicles

Favorable attitudes toward buying conditions for vehicles were held by 64 percent of all families in the July 1991 survey, up from 61 percent one month earlier, and the recent low of 47 percent recorded at the close of 1990.

Price discounts on new vehicle purchases were anticipated by 50 percent of all families in the July 1991 survey, just below the all-time record level of 51 percent recorded three months earlier (see the table below).

The proportion of families that complained about high vehicle prices fell to 15 percent in the July 1991 survey, from 20 percent one month earlier, reversing the recent increases from the recent low of 14 percent in March. Overall, complaints about high vehicle prices are now not much above the decade low of 10 percent recorded in 1986 or the all-time low of 7 percent recorded in 1956. Moreover, just 7 percent of all families in the July 1991 survey mentioned the advantage of speeding up purchase plans in anticipation of rising vehicle prices, near two decade low of 4 percent in February of this year (the all-time low was 3 percent recorded in the mid 1950's).

References to Prices in Assessments Of Vehicle Buying Conditions

	Low Prices	Buy-in-Advance Rising Prices	High Prices
July 1991	50%	7%	15%
Record Low (Year)	4% (1973, 1974, 1978)	3% (1954, 1958)	7% (1956)
Record High (Year)	51% (1991)	43% (1978)	45% (1974)

Homes

Attitudes toward buying conditions for homes remained unchanged at much improved levels in the July 1991 survey. Among all families, 73 percent thought that current buying conditions were favorable, just between the 72 percent recorded one month earlier and the 74 percent recorded two months ago.

The availability of discounted home prices were reported by 45 percent of all families in the July 1991 survey, unchanged from one month earlier, and just below the all-time record of 49 percent recorded two months earlier (see the table below).

Complaints that home prices were too high were voiced by 12 percent of all families in the July 1991 survey. Although this was marginally above the 9 percent recorded in the prior two months, it remained at very low levels compared with historic trends.

Just 8 percent of all families in July thought that it was better to buy now in anticipation of future increases in home prices, near the all-time low of 3 percent recorded in 1986.

References to Prices in Assessments Of Home Buying Conditions

	Low Prices	Buy-in-Advance Rising Prices	High Prices
July 1991	45%	8%	12%
Record Low (Year)	1% (1969, 1973, 1974)	3% (1986)	5% (1986)
Record High (Year)	49% (1991)	46% (1977)	34% (1973, 1978)

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The July 1991 survey included 502 interviews conducted between July 1st and July 30, 1991.